

Laggal Pallegama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Laggal Pallegama Pradeshiya Sabha for the year ended 31st December 2020 comprising the statement of financial position as at 31st December 2020, income and expenditure account ,and notes to the financial statements including a summary of significant accounting policies was carried out, under my direction in pursuance of provisions in Article 154(1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-Section 172(1) of the Pradeshiya Sabha Act No.15 of 1987 and Provisions of the National Audit Act No.19 of 2018.My comments and observations which I consider should be report to parliament appear in this report.

I do not express an opinion on the financial statements of the Pradeshiya Sabha. I was unable to obtain sufficient and relevant audit evidence to provide a basis for an audit opinion on these financial statements due to the importance of the matters discussed in the Basis for Disclaimer of opinion.

1.2 Basis for Disclaimer Opinion

My opinion is disclaimed on the matters described in paragraph 1.6 of this report.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with generally accepted Accounting Principles and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha
- Whether the Pradeshiya Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on other legal requirements

The National Audit Act No.19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of Pradeshiya sabha are consistent with the previous year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018 .

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit observation	Comments of the Sabha	Recommendation
(a) In carrying forward last year's opening balances for the preparation of financial statements in the year under review, 17 balances of assets and liabilities were overstated by Rs.3,647,784 and 10 balances of assets and liabilities were also understated by Rs.2,993,931 .	It is kindly informed that the opening balance of the final account prepared for the year ending 31 st December 2020 has been taken from the balance of the second final account prepared for the year ending 31 st December 2019 and as a result there is overstatement or understatement of asset account and liability account balances.	Action should be taken to correct in the preparation of financial statements for next year.
(b) Increase in capital assets and maintenance expenditure by Rs.475,069, expenditure on other services by Rs.21,130, recurrent receipts of income assistance by Rs.319,850, the weekly market rent revenue by Rs.63,200 had been understated in the income and expenditure account.	As Rs.475,069 was reimbursed by the insurance, it was mentioned in the prepaid account and Rs.21,130 an amount recorded under expenditure head in excess.	Action to be taken to correct in the preparation of financial statements for the next year.
(c) Although the sum of the contribution accounts to the capital investment from income and assistance should be equal to the	In this regard, since this difference existed in the three years from 2017 to 2020 as well as in previous years,	Action should be taken to adjust the difference and make the financial

fixed assets, there was a difference of Rs.4,093,098 between the two balances.	Action will be taken to seek advice from a suitable officer who has subject knowledge and make adjustments to correct the difference.	statements correct.
(d) A total of Rs.3,334,335 received as Rs.2,801,950 in donations of machinery and equipment and Rs.532,385 worth of furniture and fixtures received during the last year, had not been recorder to the contribution account to the capital input from assistance	The Recording of the values received as donations in the previous year to the contributions account from the capital income, it was prepared in the previous year and also in the year under review due to the lack of basic awareness which has led to this erroneous note.	Action should be taken to correct in the preparation of financial statements for next year.
(e) Capital expenditure of Rs.900,000, Debtor balance of Rs.500,000, outstanding advances of Rs.32,000, other receipts of Rs.678,610, in December salaries of Rs. 20,000 and the value of 38 store items were omitted from the financial statements.	That, this shortcoming will be rectified in the preparation of the accounts for the year 2021.	Action should be taken to correct in the preparation of financial statements, for next year.
(f) Various deposits of Rs.134,304 to be repaid, salary reimbursement income of Rs.79,684 and year-end balance of Rs.14,657 in current account had been overstated.	That this shortcoming will be rectified in the preparation of the accounts for the year 2021.	Action should be taken to correct in the preparation of financial statements for next year.
(g) Two motorcycles belonging to the Sabha, three tractor trailers and two spray machines donated were not valued and accounted for.	The value of these will be assessed and accounted for in the year 2021.	Action should be taken to correct in the preparation of financial statements for next year.

1.6.2 Unreconciled Control Accounts or Records

Audit observation

The total difference between the balances of the financial statements and the balances of the corresponding statements for the 14 subjects was Rs.18,784,197.

Comments of the Sabha

That, event errors are corrected as soon as possible.

Recommendation

Action should be taken to adjust the difference and correct the financial statements.

1.6.3 Suspense accounts

Audit observation	Comments of the Sabha	Recommendation
The difference of opening balance of the Suspense account was Rs.1,591,753 and the difference of Rs.405,322 in the cash account was also adjusted to this account, so the final balance of Rs.2,240,195 is not correct.	That the final balance has taken that value due to the initial balance was Rs.1,834,873 and adjustment of difference exist as the cash account being incorrect.	Action should be taken to correct financial statements.

1.6.4 Lack of written evidence for the Audit

Audit observation	Comments of the Sabha	Recommendation
The total amount of Rs.31,394,900 in respect of 12 account subjects could not be satisfactorily verified at the audit due to lack of evidence such as fixed assets registry, schedules and deeds confirmation.	That, necessary actions will be taken to prepare schedules as soon as possible.	All the information required for the audit should be submitted.

1.7 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions

The following are the instances of non-compliance with the provisions of laws, rules, and Regulations management decisions.

Reference to laws, rules and regulations	Non-compliance	Comments of the Sabha	Recommendation
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	14 deposits of Rs.1,483,210 which had exceeded 02 years from the date of deposit had not been dealt with as per financial regulations.	That appropriate action will be taken as soon as possible after obtaining the recommendations of the Audit Committee.	Financial regulations should be followed.

2. Financial Review

2.1 Financial results

According to the financial statement presented, excess of recurrent expenditure over revenue of the Council for the year ended 31st December 2020 amounted to Rs.718,897, In contrast the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.1,567,646. It was observed that the main reasons for this are decrease in recurrent expenditure by one million rupees and accounting errors.

2.2 Financial control

Audit observation	Comments of the Sabha	Recommendation
Although, Rs.556,290 fixed deposits maintained by the Sabha and related interest had been released but the approval of the Council had not been obtained.	It is accepted the fault and Actions will be taken to avoid such omissions in the future.	Action should be taken on the approval of General assembly.

2.3 Performance in Revenue collection

Audit observation	Comments of the Sabha	Recommendation
Water charges Water charges in arrears as at January 1 st , 2020 are Rs.536,779 and Rs.65,346 had been recovered from the arrears during the year under review. The main reasons for this were disconnection of water meters and non-payment of water charges by government agencies.	The highest percentage of water charges are in the areas affected by the Moragahakanda project. That action will be taken to recover the arrears as soon as possible.	Action should be taken to recover the arrears as per Section 158 of the Pradeshiya Sabha Act No.15 of 1987.

3. Operational Review

Following matters were revealed with regard to duties to be fulfilled by Sabha as per the Section 03 of the Pradeshiya sabha Act, in relating to regulation and control of all the matters relating to Public health, Public utility services and public highways, comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

Audit observation	Comments of the Sabha	Recommendation
(a) It is observed that environmental problems may occur, due to Failure to issue environmental permits for 05 businesses which had paid fees within 10 years, abandonment of licenses for 08 businesses due to lack of information, issuance of licenses for 08 businesses with deficiencies, delay in issuance of licenses for 04 businesses and issuance of 10 trade licenses without renewal of licenses.	That all the shortcomings that have occurred are currently being rectified.	Environment act should be complied with
(b) The F.R.104(4) Final Report on determining liabilities for Recovery of Rs.373,323 Uncompensated Loss in the Accident of a Cab belonging to the Sabha should have been submitted within three months of the accident, but by February 21 st , 2021, more than a year had elapsed since the accident, but the loss had not been recovered.	That, Actions are being to recover the loss.	Financial regulations should be complied with.